

Alternative Performance Measures

We assess the performance of the Group using a variety of alternative performance measures which are not defined under IFRS and are therefore termed 'non-GAAP' measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we use are:

- Gross Sales;
- Gross Sales (Retail);
- Exceptional Items;
- Underlying administrative costs and distribution costs;
- EBITDA;
- External gross debt; and
- Net debt.

A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Gross Sales

Gross Sales is a measure of reported revenue before excluding value added tax and relevant vouchers and offers. Gross Sales is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector.

A reconciliation from reported revenue to Gross Sales can be found in note 2.3 in the consolidated financial statements.

Gross Sales (Retail)

Gross Sales (Retail) is a measure of reported revenue for the Group's retail operation, before excluding value added tax and relevant vouchers. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business.

Exceptional items

The Group's Consolidated Income Statement separately identifies trading results before exceptional Items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of items that the Group considers exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, material litigation, and any material costs, outside of the normal course of business as determined by management.

Exceptional items are disclosed in note 2.7 to the consolidated financial statements.

Underlying distribution and administrative costs

Underlying distribution and administrative costs are measures which seek to reflect the underlying performance of the Group that will contribute to long-term sustainable growth. As such, they exclude the impact of depreciation, amortisation, impairment and costs relating to the provision of services to Morrisons.

A reconciliation from reported distribution and administrative costs, the most directly comparable IFRS measure, to the decrease in underlying administrative and distribution costs, is set out below.

	2016 £m	2015 £m
Underlying distribution costs	247.5	216.6
Costs recharged to Morrisons	76.4	52.0
Depreciation and amortisation	41.8	40.8
Reported distribution costs	365.7	309.4

	2016 £m	2015 £m
Underlying administrative costs	78.8	73.4
Costs recharged to Morrisons	3.4	2.9
Depreciation and amortisation	18.4	19.3
Reported administrative costs	100.6	95.6

EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on EBITDA. EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and Exceptional Items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

We consider EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not direct measures of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

A reconciliation from operating profit to EBITDA can be found on the face of the Consolidated Income Statement on page 125.

External gross debt

External gross debt consists of loans and other borrowings (both current and non-current), less finance leases payable to joint venture interests of the Group.

External gross debt is a measure of the Group's indebtedness to third parties which are not considered a related party to the Group.

A reconciliation from this to gross debt can be found below.

	2016 £m	2015 £m
External gross debt	107.1	53.3
Finance leases relating to joint ventures	108.7	119.5
Gross debt	215.8	172.8

Net Debt

Net debt consists of loans and other borrowings (both current and non-current), less cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. A reconciliation from these measures to net debt can be found in Note 4.4 in the consolidated financial statements.